

Village of Richland
Kalamazoo County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended February 29, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Village of Richland

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Village of Richland's (the Village) financial performance provides a narrative overview of the Village's financial activities for the fiscal year ended February 29, 2008. Please read it in conjunction with the Village's financial statements.

FINANCIAL HIGHLIGHTS

- The Village's total net assets increased by \$8,712 (1 percent) as a result of this year's activities.
- Of the \$712,493 total net assets reported, \$215,623 (30 percent) is available to be used to meet the Village's ongoing obligations to its citizens and customers.
- The General Fund's unreserved fund balance at the end of the fiscal year was \$248,249, which represents 62 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Village's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Village:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Village, reporting the Village's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.
 - Fiduciary fund statements account for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide financial statements

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Village's net assets and how they have changed. Net assets (the difference between the Village's assets and liabilities) is one way to measure the Village's financial health, or position.

- Over time, increases or decreases in the Village's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Village, you need to consider additional nonfinancial factors such as changes in the Village's property tax base and the condition of the Village's capital assets.

Village of Richland
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The government-wide financial statements are in one category:

- *Governmental activities* - Most of the Village's basic services are included here, such as police and fire protection and general government. Property taxes and state grants finance most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Village's most significant funds - not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Village Council establishes other funds to control and manage money for particular purposes (like the Water and Sidewalk Improvement Funds) or to show that it is properly using certain taxes and other revenues (like motor fuel taxes collected for the street funds).

The Village has two kinds of funds:

1. *Governmental funds.* Most of the Village's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out and, (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship between them.
2. *Fiduciary fund.* The Village reports a single fiduciary fund, Agency Fund, which accounts for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$712,493, an increase of 1 percent compared to the prior year. Of this total, \$254,144 is invested in capital assets, net of related debt and \$242,726 is restricted for various purposes. Consequently, unrestricted net assets were \$215,623, or 30 percent of the total.

Condensed financial information
Net Assets

	<i>Governmental activities</i>	
	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 602,740	\$ 569,222
Capital assets	<u>274,499</u>	<u>337,312</u>
Total assets	<u>877,239</u>	<u>906,534</u>
Current and other liabilities	59,220	121,170
Noncurrent long-term obligations	<u>105,526</u>	<u>81,583</u>
Total liabilities	<u>164,746</u>	<u>202,753</u>
Net assets:		
Invested in capital assets, net of related debt	254,144	194,751
Restricted	242,726	248,325
Unrestricted	<u>215,623</u>	<u>260,705</u>
Total net assets	<u>\$ 712,493</u>	<u>\$ 703,781</u>

Governmental activities. Governmental activities increased the Village's net assets by \$8,712. The key factor for this increase was that current year revenues in excess of anticipated amounts were not converted to expanded or new activities. The decrease in charges for services (approximately \$53,000) was due to a decrease in building inspection activities, which was offset by a similar decrease in the related cost to perform inspections (part of public safety expense). The decrease in public safety expense was partially offset by an increase in police services, due to the addition of two officers.

The cost of all governmental activities this year was \$436,280. After subtracting the direct charges to those who directly benefited from the programs (\$35,252), and operating and capital grants and contributions (\$39,473), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$361,555.

Village of Richland
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in net assets. The Village's total revenues for 2008 were \$444,992. More than 69 percent of the Village's revenues come from property taxes and approximately 11 percent comes from unrestricted state grants.

The total cost of all the Village's programs for 2008, covering a wide range of services, totaled \$436,280. More than 34 percent of the Village's costs relate to public safety expenses and general government costs represent approximately 32 percent of all costs.

Condensed financial information
Changes in Net Assets

	<i>Governmental activities</i>	
	<u>2008</u>	<u>2007</u>
Program revenues:		
Charges for services	\$ 35,252	\$ 57,586
Operating grants and contributions	39,473	40,494
General revenues:		
Property taxes	304,920	302,895
State shared revenue	46,961	46,117
Franchise fees	5,594	5,048
Investment income	10,952	12,315
Other	1,840	-
Total revenues	<u>444,992</u>	<u>464,455</u>
Expenses:		
Legislative	4,959	4,887
General government	141,103	140,441
Public safety	150,324	160,282
Public works	117,890	59,647
Community and economic development	4,845	6,891
Culture and recreation	8,019	6,728
Debt service	9,140	11,997
Total expenses	<u>436,280</u>	<u>390,873</u>
Increase in net assets	<u>\$ 8,712</u>	<u>\$ 73,582</u>

Village of Richland
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

Governmental funds. As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$489,972, a decrease of \$1,624 in comparison with the prior year.

The General Fund is the chief operating fund of the Village. At the end of the fiscal year, unreserved fund balance was \$248,249, which represents 62 percent of the actual total General Fund expenditures for the current fiscal year. The fund balance increased by \$4,978 during the fiscal year, as revenues slightly exceeded expenditures. Public works reported an increase in spending from 2007 to 2008 as a result of the sidewalk replacement project.

Non-major governmental funds experienced an overall decrease in fund balance of \$5,989 during the fiscal year, as the Water Improvement Fund incurred unreimbursed costs in connection with a hydrant easement at the Spruce Lane Apartments.

General fund budgetary highlights

Budgeted expenditures were increased \$11,465 during the year to reflect anticipated cost increases. Public safety - police accounted for a significant portion of the budget amendments. The building inspections activity experienced the most significant spending in excess of budget (\$9,888) as no amounts were budgeted for expenditures.

Capital assets and debt administration

Capital assets.

The Village's investment in capital assets for its governmental activities as of February 29, 2008, amounts to \$138,001 (net of accumulated depreciation and related debt). This investment includes a broad range of assets including infrastructure, buildings and equipment. The decrease in the Village's net investment in capital assets for the current fiscal year was \$56,750.

	<i>Governmental activities, net of depreciation</i>
Land Improvements	\$ 1,100
Buildings and improvements	116,528
Equipment	77,821
Infrastructure	<u>79,050</u>
Totals	<u>\$ 274,499</u>

Major capital asset events during the current fiscal year included the purchase of a dump trailer with leaf vacuum for \$16,500.

More detailed information about the Village's capital assets is presented in Note 5 of the notes to the basic financial statements.

Village of Richland
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Long-term debt.

At the end of the fiscal year, the Village had debt outstanding in the amount of \$136,498, which represents a decrease of \$38,365 or 22 percent. No new debt was issued in 2008.

More detailed information about the Village's long-term liabilities is presented in Note 8 of the notes to the basic financial statements.

Economic condition and outlook

The Village of Richland is a residential community with a healthy commercial center located in Kalamazoo County, Michigan. The 2000 census showed a population of 593 and the most recent Census Bureau's population estimate is **725**. The Village's proximity to the Kalamazoo Metropolitan Area and its location on two state highways and near Interstate 94 and US 131 make it a desirable location for both residential and commercial development.

The Village has experienced recent residential development, and there is a thirty-two unit condominium development under construction now, and another of similar size planned for the near future. There is also a mixed commercial-residential development in the preliminary planning stages. While our taxable value has increased about ten-percent per year for the past several years, we expect growth of about five-percent in the next few years.

The Village is committed to the goal of fiscal conservatism while encouraging economic development and maintaining and developing its infrastructure and services. The Village will continue taking progressive steps to ensure proper utilization of resources and reinvesting revenues to ensure that the Village is operating at its peak efficiency.

Contacting the Village's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Rosemary Woodward, Village Clerk
Village of Richland
P.O. Box 1
Richland, Michigan 49083

Phone: (269) 629-9903

INDEPENDENT AUDITORS' REPORT

Village Council
Village of Richland, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Richland, Michigan, as of February 29, 2008, and for the year then ended, which collectively comprise the Village's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Village of Richland, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Richland, Michigan, as of February 29, 2008, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis, budgetary comparison schedules, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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Village Council
Village of Richland, Michigan
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Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Village of Richland, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Village of Richland, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Siegfried Crandall P.C.

May 7, 2008

BASIC FINANCIAL STATEMENTS

Village of Richland
STATEMENT OF NET ASSETS
February 29, 2008

	<u>Governmental activities</u>
ASSETS	
Current assets:	
Cash	\$ 492,211
Receivables, net	47,662
Prepaid expenses	<u>10,026</u>
Total current assets	<u>549,899</u>
Noncurrent assets:	
Receivables, net	52,841
Capital assets, net of accumulated depreciation	<u>274,499</u>
Total noncurrent assets	<u>327,340</u>
Total assets	<u>877,239</u>
LIABILITIES	
Current liabilities:	
Payables	28,248
Current portion of long-term obligations	<u>30,972</u>
Total current liabilities	59,220
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	<u>105,526</u>
Total liabilities	<u>164,746</u>
NET ASSETS	
Invested in capital assets, net of related debt	254,144
Restricted for:	
Public works	238,595
Debt service	4,131
Unrestricted	<u>215,623</u>
Total net assets	<u>\$ 712,493</u>

See notes to financial statements

Village of Richland
STATEMENT OF ACTIVITIES
Year ended February 29, 2008

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (expenses) revenues and changes in net assets</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	
Governmental activities:				
Legislative	\$ 4,959	\$ -	\$ -	\$ (4,959)
General government	141,103	657	-	(140,446)
Public safety	150,324	27,654	1,032	(121,638)
Public works	117,890	-	38,441	(79,449)
Recreation and culture	4,845	-	-	(4,845)
Community and economic development	8,019	1,100	-	(6,919)
Debt service - interest	9,140	5,841	-	(3,299)
Total governmental activities	<u>\$ 436,280</u>	<u>\$ 35,252</u>	<u>\$ 39,473</u>	<u>(361,555)</u>
General revenues:				
				304,920
				46,961
				5,594
				10,952
				1,840
			Total general revenues	<u>370,267</u>
			Change in net assets	8,712
			Net assets - beginning	<u>703,781</u>
			Net assets - ending	<u>\$ 712,493</u>

See notes to financial statements

Village of Richland
BALANCE SHEET - governmental funds
February 29, 2008

	<u>General</u>	<u>1987 Water</u>	<u>32nd Street Sewer Debt</u>
ASSETS			
Cash	\$ 255,500	\$ 95,315	\$ 502
Receivables	<u>22,734</u>	<u>-</u>	<u>29,220</u>
Total assets	<u>\$ 278,234</u>	<u>\$ 95,315</u>	<u>\$ 29,722</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables	\$ 25,203	\$ -	\$ -
Deferred revenue	<u>4,782</u>	<u>-</u>	<u>29,220</u>
Total liabilities	<u>29,985</u>	<u>-</u>	<u>29,220</u>
Fund balances:			
Unreserved, undesignated	248,249	95,315	502
Unreserved, undesignated reported in nonmajor:			
Special revenue funds	-	-	-
Debt service fund	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>248,249</u>	<u>95,315</u>	<u>502</u>
Total liabilities and fund balances	<u>\$ 278,234</u>	<u>\$ 95,315</u>	<u>\$ 29,722</u>

Total fund balances - governmental funds

Amounts reported for *governmental activities* in the statement of net assets (page 4) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

Prepaid expenses are not a current financial resource and, therefore, are not reported in the funds.

Special assessments and taxes receivable are not available to pay for the current period's expenditures and, therefore, are deferred in the funds.

Long-term liabilities, including contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Net assets of *governmental activities*

<i>Bunkerhill Sewer Debt</i>	<i>Total nonmajor governmental funds</i>	<i>Total governmental funds</i>
\$ 783	\$ 140,111	\$ 492,211
<u>32,056</u>	<u>16,493</u>	<u>100,503</u>
<u>\$ 32,839</u>	<u>\$ 156,604</u>	<u>\$ 592,714</u>

\$ 1,329	\$ 1,716	\$ 28,248
<u>30,727</u>	<u>9,765</u>	<u>74,494</u>
<u>32,056</u>	<u>11,481</u>	<u>102,742</u>

783	-	344,849
-	143,280	143,280
<u>-</u>	<u>1,843</u>	<u>1,843</u>
<u>783</u>	<u>145,123</u>	<u>489,972</u>
<u>\$ 32,839</u>	<u>\$ 156,604</u>	<u>\$ 592,714</u>

\$ 489,972

274,499

10,026

74,494

(136,498)

\$ 712,493

See notes to financial statements

Village of Richland**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds***Year ended February 29, 2008*

	<u>General</u>	<u>1987 Water</u>	<u>32nd Street Sewer Debt</u>
REVENUES			
Taxes	\$ 307,155	\$ -	\$ -
Licenses and permits	11,541	-	-
State grants	46,961	-	-
Charges for services	5,619	-	-
Fines and forfeitures	16,551	-	-
Interest and rentals	6,463	780	2,345
Other	8,115	-	9,259
	<u>402,405</u>	<u>780</u>	<u>11,604</u>
Total revenues			
	<u>402,405</u>	<u>780</u>	<u>11,604</u>
EXPENDITURES			
Legislative	4,959	-	-
General government	137,971	-	-
Public safety	141,341	-	-
Public works	71,092	-	-
Recreation and culture	5,899	-	-
Community and economic development	8,019	-	-
Capital outlay	16,785	-	-
Debt service:			
Principal	9,584	-	9,259
Interest	1,777	-	2,342
	<u>397,427</u>	<u>-</u>	<u>11,601</u>
Total expenditures			
	<u>397,427</u>	<u>-</u>	<u>11,601</u>
NET CHANGE IN FUND BALANCES	<u>4,978</u>	<u>780</u>	<u>3</u>
FUND BALANCES - BEGINNING	<u>243,271</u>	<u>94,535</u>	<u>499</u>
FUND BALANCES - ENDING	<u>\$ 248,249</u>	<u>\$ 95,315</u>	<u>\$ 502</u>

<i>Bunkerhill Sewer Debt</i>	<i>Total nonmajor governmental funds</i>	<i>Total governmental funds</i>
\$ -	\$ -	\$ 307,155
-	-	11,541
-	36,717	83,678
-	-	5,619
-	-	16,551
2,267	4,938	16,793
<u>6,307</u>	<u>8,001</u>	<u>31,682</u>
 8,574	 49,656	 473,019
-	-	4,959
-	-	137,971
-	-	141,341
-	41,072	112,164
-	-	5,899
-	-	8,019
-	-	16,785
7,311	12,211	38,365
<u>2,659</u>	<u>2,362</u>	<u>9,140</u>
 9,970	 55,645	 474,643
 (1,396)	 (5,989)	 (1,624)
 2,179	 151,112	 491,596
<u>\$ 783</u>	<u>\$ 145,123</u>	<u>\$ 489,972</u>

See notes to financial statements

Village of Richland

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - *governmental funds* (Continued)**

Year ended February 29, 2008

Net change in fund balances - total governmental funds	\$ (1,624)
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Amounts reported for *governmental activities* in the statement of activities (page 5) are different because:

Capital assets:

Assets acquired	16,500
Provision for depreciation	(18,335)

Long-term debt - principal repayments	38,365
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Changes in other assets/liabilities:

Net decrease in prepaid expenses	(392)
Net decrease in deferred revenue	<u>(25,802)</u>

Change in net assets	<u>\$ 8,712</u>
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See notes to financial statements

Village of Richland
STATEMENT OF FIDUCIARY NET ASSETS - *Agency Fund*
February 29, 2008

ASSETS

Cash	\$ <u>3,009</u>
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LIABILITIES

Due to other governmental units	\$ <u>3,009</u>
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See notes to financial statements

Village of Richland
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Village of Richland, Michigan (the Village), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present only the Village. There are no component units, entities for which the Village is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Village. The effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Village of Richland
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The 1987 Water Fund accounts for the use of amounts charged to all Village property owners in 1987 for utility system project administered and owned by Gull Lake Sewer and Water Authority.

The 32nd Street Sewer Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt associated with a utility system project administered and owned by Gull Lake Sewer and Water Authority.

The Bunkerhill Sewer Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt associated with a utility system project administered and owned by Gull Lake Sewer and Water Authority.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance, subject to this same limitation. The Village has elected not to follow subsequent private-sector standards.

The Village reports a single fiduciary fund, Agency Fund, which accounts for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Pooled interest income is proportionately allocated to all funds.

Village of Richland
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

ii) Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Village has elected to account for infrastructure assets prospectively, beginning March 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 40 years
Equipment	3 - 10 years
Roads	40 years

v) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vi) Property tax revenue recognition - Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before July 31, after which time the bill becomes delinquent and penalties and interest may be assessed by the Village. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Village levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year.

Village of Richland
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued):

The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public safety	Building inspections	\$ -	\$ 9,888	\$ (9,888)
	Public works	Cable television	12,000	14,872	(2,872)

NOTE 3 - CASH:

The Village's cash balances at February 29, 2008, were as follows:

	<u>Governmental activities</u>	<u>Fiduciary</u>	<u>Total</u>
Cash	\$ 492,211	\$ 3,009	\$ 495,220

State statutes and the Village's investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Village's deposits are in accordance with statutory authority. At February 29, 2008, the Village had deposits with a carrying amount of \$495,220.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Village will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At February 29, 2008, \$131,021 of the Village's bank balances of \$503,031 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Village believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Village of Richland
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

Receivables as of year end for the Village's individual major and nonmajor funds, in the aggregate, are as follows:

<i>Fund</i>	<i>Property taxes</i>	<i>Special assessments</i>	<i>Inter- governmental</i>	<i>Totals</i>
General	\$ 4,782	\$ -	\$ 17,952	\$ 22,734
32nd Street Sewer	-	29,220	-	29,220
Bunkerhill Sewer	-	32,056	-	32,056
Nonmajor funds	-	9,765	6,728	16,493
Totals	<u>\$ 4,782</u>	<u>\$ 71,041</u>	<u>\$ 24,680</u>	<u>\$ 100,503</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ 52,841</u>	<u>\$ -</u>	<u>\$ 52,841</u>

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended February 29, 2008, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets being depreciated:				
Land improvements	\$ 11,000	\$ -	\$ -	\$ 11,000
Buildings and improvements	180,339	-	-	180,339
Equipment	187,660	16,500	(19,772)	184,388
Infrastructure	86,247	-	-	86,247
Subtotal	<u>465,246</u>	<u>16,500</u>	<u>(19,772)</u>	<u>461,974</u>
Less accumulated depreciation for:				
Land improvements	(9,350)	(550)	-	(9,900)
Buildings and improvements	(59,302)	(4,509)	-	(63,811)
Equipment	(115,219)	(11,120)	19,772	(106,567)
Infrastructure	<u>(5,041)</u>	<u>(2,156)</u>	<u>-</u>	<u>(7,197)</u>
Subtotal	<u>(188,912)</u>	<u>(18,335)</u>	<u>19,772</u>	<u>(187,475)</u>
Governmental activities capital assets, net	<u>\$ 276,334</u>	<u>\$ (1,835)</u>	<u>\$ -</u>	<u>\$ 274,499</u>

Village of Richland
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to functions of the Village as follows:

General government	\$ 3,911
Public safety	8,698
Public works	<u>5,726</u>
	<u>\$ 18,335</u>

NOTE 6 - PAYABLES:

Payables at February 29, 2008, consist of the following:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Inter- governmental</u>	<u>Total</u>
General	\$ 4,546	\$ 1,398	\$ 19,259	\$ 25,203
Bunkerhill Sewer Debt	-	-	1,329	1,329
Nonmajor funds	<u>-</u>	<u>-</u>	<u>1,716</u>	<u>1,716</u>
Total	<u>\$ 4,546</u>	<u>\$ 1,398</u>	<u>\$ 22,304</u>	<u>\$ 28,248</u>

NOTE 7 - DEFERRED REVENUES:

Governmental funds report deferred revenues in connection with assets that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of year end, all amounts shown as deferred revenues have been deferred as they are not considered available to liquidate liabilities of the current period.

Village of Richland
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM LIABILITIES:

Long-term debt at February 29, 2008, is comprised of the following individual issues:

\$11,990 Note payable - Independent Bank, due in monthly installments of \$272, including interest at 4.20%, through June 2010	\$ 7,242
\$20,281 Contract payable - Kalamazoo County, Michigan, due in annual installments of \$2,737, plus interest at 1.80%, through January 2013	13,113
\$100,000 State Infrastructure Loan - due in annual installments of \$10,656, including interest at 4.00%, through September 2012	47,434

The Village has agreed to remit to the Gull Lake Sewer and Water Authority (the Authority) all principal and interest collections arising from special assessments levied on properties served by the Authority. In the event the Authority is unable to meet its debt service requirements, an assessment may be made against the Village. The Village has pledged its full faith and credit for the payment of any such deficiency incurred by the Authority. The specific contract balances are as follows:

Sewer special assessment district	9,765
Bunkerhill special assessment district	29,723
32nd Street special assessment district	<u>29,221</u>

Long-term debt at February 29, 2008	<u>\$ 136,498</u>
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Long-term liability activity for the year ended February 29, 2008, is as follow:

	<i>Beginning balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Amounts due within one year</i>
Note payable, Independent Bank	\$ 10,133	\$ -	\$ 2,891	\$ 7,242	\$ 3,015
Contract payable, Kalamazoo County	15,597	-	2,484	13,113	2,529
State Infrastructure Loan	55,853	-	8,419	47,434	8,757
Contracts payable, Authority:					
Sewer	17,766	-	8,001	9,765	4,882
Bunkerhill Sewer	37,034	-	7,311	29,723	5,945
32nd Street Sewer	<u>38,480</u>	<u>-</u>	<u>9,259</u>	<u>29,221</u>	<u>5,844</u>
Total long term liabilities	<u>\$ 174,863</u>	<u>\$ -</u>	<u>\$ 38,365</u>	<u>\$ 136,498</u>	<u>\$ 30,972</u>

Village of Richland
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - LONG-TERM LIABILITIES (Continued):

Debt service requirements at February 29, 2008, are as follows:

<u>Year ended February 28:</u>	<u>Principal</u>	<u>Interest</u>
2009	30,972	6,622
2010	31,501	5,042
2011	24,962	3,469
2012	24,310	2,323
2013	<u>24,753</u>	<u>1,170</u>
Totals	<u>\$ 136,498</u>	<u>\$ 18,626</u>

All debt is secured by the full faith and credit of the Village.

NOTE 10 - RISK MANAGEMENT:

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended February 29, 2008, is as follows:

Revenues	\$ 10,409
Expenses	<u>12,050</u>
Excess expenses over revenues	<u>\$ (1,641)</u>

REQUIRED SUPPLEMENTARY INFORMATION

Village of Richland
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended February 29, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 318,300	\$ 318,300	\$ 307,155	\$ (11,145)
Licenses and permits	1,600	1,600	11,541	9,941
State grants	45,000	45,000	46,961	1,961
Charges for service	5,000	5,000	5,619	619
Fines and forfeitures	18,000	18,000	16,551	(1,449)
Interest and rentals	3,500	3,500	6,463	2,963
Other	12,000	39,465	8,115	(31,350)
Total revenues	<u>403,400</u>	<u>430,865</u>	<u>402,405</u>	<u>(28,460)</u>
EXPENDITURES				
Legislative	<u>5,385</u>	<u>5,385</u>	<u>4,959</u>	<u>426</u>
General government:				
Election	1,400	1,400	1,643	(243)
Clerk	21,070	22,735	23,270	(535)
Treasurer	11,845	11,845	11,841	4
Hall and grounds	19,700	19,700	19,845	(145)
Administration	<u>82,130</u>	<u>83,730</u>	<u>81,372</u>	<u>2,358</u>
Total general government	<u>136,145</u>	<u>139,410</u>	<u>137,971</u>	<u>1,439</u>
Public safety:				
Police	109,800	119,200	116,673	2,527
Fire	17,000	17,000	14,780	2,220
Building inspections	<u>-</u>	<u>-</u>	<u>9,888</u>	<u>(9,888)</u>
Total public safety	<u>126,800</u>	<u>136,200</u>	<u>141,341</u>	<u>(5,141)</u>
Public works:				
Motor vehicle pool	6,650	6,650	6,743	(93)
Cable television	12,000	12,000	14,872	(2,872)
Trees and sidewalks	58,000	44,100	37,191	6,909
Street lighting	<u>13,000</u>	<u>13,000</u>	<u>12,286</u>	<u>714</u>
Total public works	<u>89,650</u>	<u>75,750</u>	<u>71,092</u>	<u>4,658</u>

Village of Richland
BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)
Year ended February 29, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Recreation and culture - park maintenance	\$ 7,780	\$ 7,780	\$ 5,899	\$ 1,881
Community and economic development - planning and zoning	12,550	12,550	8,019	4,531
Capital outlay	8,800	21,500	16,785	4,715
Debt service:				
Principal	10,000	10,000	9,584	416
Interest	1,780	1,780	1,777	3
Total expenditures	398,890	410,355	397,427	12,928
EXCESS OF REVENUES OVER EXPENDITURES	4,510	20,510	4,978	(15,532)
OTHER FINANCING SOURCES:				
Transfers from Sidewalk Improvement	16,000	-	-	-
NET CHANGE IN FUND BALANCES	20,510	20,510	4,978	(15,532)
FUND BALANCES - BEGINNING	243,271	243,271	243,271	-
FUND BALANCES - ENDING	<u>\$ 263,781</u>	<u>\$ 263,781</u>	<u>\$ 248,249</u>	<u>\$ (15,532)</u>

Village of Richland
BUDGETARY COMPARISON SCHEDULE - 1987 Water Fund
Year ended February 29, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Interest	\$ -	\$ -	\$ 780	\$ 780
FUND BALANCES - BEGINNING	<u>94,535</u>	<u>94,535</u>	<u>94,535</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 94,535</u>	<u>\$ 94,535</u>	<u>\$ 95,315</u>	<u>\$ 780</u>

SUPPLEMENTARY INFORMATION

Village of Richland**COMBINING BALANCE SHEET - nonmajor governmental funds**

February 29, 2008

	Special revenue			
	<u>Major Street</u>	<u>Local Street</u>	<u>Water Improvement</u>	<u>Sidewalk Improvement</u>
ASSETS				
Cash	\$ 44,987	\$ 22,371	\$ 54,019	\$ 16,891
Receivables	<u>4,610</u>	<u>2,118</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 49,597</u>	<u>\$ 24,489</u>	<u>\$ 54,019</u>	<u>\$ 16,891</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 1,144	\$ 572	\$ -	\$ -
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	1,144	572	-	-
Fund balances - unreserved, undesignated	<u>48,453</u>	<u>23,917</u>	<u>54,019</u>	<u>16,891</u>
Total liabilities and fund balances	<u>\$ 49,597</u>	<u>\$ 24,489</u>	<u>\$ 54,019</u>	<u>\$ 16,891</u>

<u>Debt service</u>		
<u>Sewer Debt</u>		<u>Total</u>
\$ 1,843		\$ 140,111
9,765		16,493
<u>\$ 11,608</u>		<u>\$ 156,604</u>
\$ -		\$ 1,716
9,765		9,765
9,765		11,481
<u>1,843</u>		<u>145,123</u>
\$ 11,608		\$ 156,604

<i>Sewer Debt</i>	<i>Total</i>
\$ 1,843	\$ 140,111
9,765	16,493
<u>\$ 11,608</u>	<u>\$ 156,604</u>
\$ -	\$ 1,716
9,765	9,765
<u>9,765</u>	<u>11,481</u>
1,843	145,123
<u>1,843</u>	<u>145,123</u>
\$ 11,608	\$ 156,604
<u>\$ 11,608</u>	<u>\$ 156,604</u>

Total

\$	1,843	\$	140,111
	9,765		16,493
	<u>11,608</u>		<u>156,604</u>

\$	-	\$	1,716
	<u>9,765</u>		<u>9,765</u>
	9,765		11,481

9,765 11,481

1,843	145,123
<u> </u>	<u> </u>

\$	11,608	\$	156,604
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Village of Richland**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - *nonmajor governmental funds***

Year ended February 29, 2008

	<i>Special revenue</i>			
	<i>Major Street</i>	<i>Local Street</i>	<i>Water Improvement</i>	<i>Sidewalk Improvement</i>
REVENUES				
State grants	\$ 25,156	\$ 11,561	\$ -	\$ -
Interest	1,324	889	1,113	354
Other	-	-	-	-
Total revenues	<u>26,480</u>	<u>12,450</u>	<u>1,113</u>	<u>354</u>
EXPENDITURES				
Public works	22,433	12,672	5,967	-
Debt service:				
Principal	-	4,210	-	-
Interest	-	1,118	-	-
Total expenditures	<u>22,433</u>	<u>18,000</u>	<u>5,967</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	4,047	(5,550)	(4,854)	354
FUND BALANCES - BEGINNING	<u>44,406</u>	<u>29,467</u>	<u>58,873</u>	<u>16,537</u>
FUND BALANCES - ENDING	<u>\$ 48,453</u>	<u>\$ 23,917</u>	<u>\$ 54,019</u>	<u>\$ 16,891</u>

<u><i>Debt service</i></u>	
<u><i>Sewer</i></u>	
<u><i>Debt</i></u>	<u><i>Total</i></u>
\$ -	\$ 36,717
1,258	4,938
<u>8,001</u>	<u>8,001</u>
<u>9,259</u>	<u>49,656</u>
-	41,072
8,001	12,211
<u>1,244</u>	<u>2,362</u>
<u>9,245</u>	<u>55,645</u>
14	(5,989)
<u>1,829</u>	<u>151,112</u>
<u>\$ 1,843</u>	<u>\$ 145,123</u>

May 7, 2008

**Members of the Village Council
Village of Richland**

We have audited the financial statements of the governmental activities , each major fund, and the aggregate remaining fund information of the Village of Richland for the year ended February 29, 2008, and have issued our report thereon dated May 7, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 15, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village of Richland are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year 2008. We noted no transactions entered into by Village of Richland during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.



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Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Village's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended February 29, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Richland's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the Village of Richland as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Richland's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Village has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The Village has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the members of the Village Council of the Village of Richland and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.